

EXHIBIT B

The logo for LITSON, featuring the word "LITSON" in white, uppercase, sans-serif font, followed by a small yellow dot, all on a dark blue rectangular background.

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May 29, 2024

VIA EMAIL

The Honorable Philip Kopczynski
Assistant United States Attorney
Office of the U.S. Attorney
for the Western District of Washington
700 Stewart Street, Suite 5220
Seattle, WA 98101
philip.kopczynski@usdoj.gov

**Re: *United States v. Nevin Shetty*, 2:23-CR-84-TL
Rule 16(b)(1)(C) disclosure: Jonathan Joseph**

Dear Counsel:

Pursuant to Federal Rule of Criminal Procedure 16(b)(1)(C), the Defendant hereby provide this notice that he intends to call Jonathan Joseph as a witness to provide testimony under Federal Rules of Evidence 702, 703, and 705. Mr. Joseph's qualifications are set forth in the attached curriculum vitae, which includes all publications of his in the previous ten years. Mr. Malekan has not testified as an expert at trial or by deposition in the previous four years. Mr. Joseph's opinion is provided in the attached report. While Mr. Joseph's testimony depends in large part on what the government presents in its case-in-chief, the testimony summaries and opinions below are all within Mr. Joseph's expertise.

The Defendant anticipates that Mr. Joseph will provide testimony regarding the following, as reflected in his attached report:

1. Background on TerraLuna, Anchor, and UST.

It is anticipated that Mr. Joseph's testimony will provide background on TerraLuna, Anchor, and UST. It is anticipated that his testimony will describe public sentiment toward and support of TerraLuna. It is anticipated that his testimony will describe why many people believed TerraLuna was a safe, profitable long-term investment and why he was personally skeptical of it as a long-term investment.

The basis of his opinions and testimony will be his experience as a blockchain security consultant for over 10 years.

2. TerraLuna as a stablecoin and the market crash.

It is anticipated that Mr. Joseph's testimony will describe the perception of TerraLuna as a stablecoin and the impact of that belief on investor confidence. It is anticipated that he will describe the TerraLuna market crash and the impact of the crash on financial loss.

As to this topic, Mr. Joseph will base his opinion and testimony on the same information listed in topic 1.

3. Mr. Joseph may testify as a rebuttal witness to the government's expert testimony about any aspect of TerraLuna, Anchor, and UST.

As to this topic, Mr. Joseph will base his opinion and testimony on the same information listed in topic 1. The Defendant will supplement a rebuttal disclosure at the appropriate time.

The Defendant reserves the right to supplement this disclosure in accordance with the Federal Rules.

Sincerely,

/s/ J. Alex Little

J. Alex Little

Zachary C. Lawson

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REPORT OF JONATHAN JOSEPH

The Case For and Against TerraLuna/Anchor/UST

I personally was skeptical of TerraLuna/Anchor/UST as a long-term investment opportunity because the UST stablecoin was collateralized by LUNA, which was itself not solid collateral. As such, it would retain its peg as long as people believed in the collateral, but it would be susceptible to a bank run if there were any questions or issues. As the amount of UST outstanding grew significantly, I feared the increasing potential for that bank run and a chaotic unwinding, which did eventually occur.

On the other hand, there were many counterarguments made by smart investors who believed in the bullish case for TerraLuna. They believed that the LUNA collateral was either already solid collateral or believed it would become solid collateral over time. Before the collapse, the LUNA foundation started buying Bitcoin as an effort to diversify their collateral, and something that could have created that more solid footing. Additional adoption of the Terra Luna blockchain could have also solidified the LUNA collateral. The Anchor protocol was slated to expand its use cases to become more of a secure lending protocol for assets beyond LUNA.

Investor Sentiment and Beliefs

Many well-placed and highly skilled investors believed that TerraLuna was a great investment. A decentralized stablecoin at scale is a truly significant investment opportunity which has attracted significant investment capital. There are a handful of ways that a decentralized stablecoin can be collateralized, and UST used the overcollateralization model originally pioneered by MakerDAO. The problem with the overcollateralization approach is that it is very capital inefficient. It was LUNA's tight integration and partnership with the Anchor protocol, which offered ~20% yields to those participating in the UST model which addressed the capital inefficiencies inherent in that model. If UST had been able to leverage Anchor to overcome the capital inefficiency problem, it has a chance to become a breakout decentralized stablecoin, and given the amount of UST in circulation many investors could believe that there was demonstrable evidence of this model working.

Depending on the asset, investors perceived viable ways to make money on the TerraLuna platform, including yield farming. LUNA was used to collateralize UST, which would earn you interest on the collateral. LUNA itself could be bonded to secure the blockchain, earning the blockchain's native staking yield. For those who minted UST, they could lend the UST to Anchor for approximately 20% yields, or use that UST as collateral or liquidity in a large variety of ways via other DeFi protocols.

There were many and varied ways to earn yield on UST, and Curve, which is the largest stablecoin exchange, considered adding UST to its core and most important stablecoins (which had included USDT, USDC and DAI at that point).

The general sentiment of the DeFi market and the larger investment community towards TerraLuna before the crash was some euphoria, given the growth and results. The majority of market participants were long LUNA on the growth of UST in circulation, famously including Mike Novogratz who got a LUNA tattoo. So it's fair to say that most of the market was bullish, as price action would indicate. But there were some other market participants like me who were skeptical. There have been many stablecoin experiments that have failed for various reasons.

Stablecoin Perception

The belief that TerraLuna was a stablecoin impacted investor confidence. Stablecoins need to be sufficiently collateralized and maintain their peg. It was demonstrable that both criteria were being met, although it was the overconfidence in the stability of that collateral that caused the problem. We see in crypto markets that investors have wildly mispriced blockchain assets for many years before the markets corrected, so as LUNA prices increased, it only increased investor confidence in the collateral.

The quick regain of TerraLuna's peg to the dollar in 2021 bolstered this belief. This was significant. The market had organically solved the problem with a depeg that should have ended the project's viability. That market actors came in and covered over the depeg provided false confidence to the market, which only made the eventual downfall even bigger.

Impact of the Crash

The TerraLuna crash was significant in terms of financial loss and the evaporation of capital. It was so much that investors lost not only X% of their capital, but that whatever % of their capital was exposed to LUNA/UST effectively evaporated over a very short period. This dried up liquidity across DeFi and had aftershocks that have not been fully repaired 3 years later.

The belief in TerraLuna's profitability contributed to the extent of the losses, which is common with most blockchain-related economics. Every crypto asset is valued speculatively, particularly blockchains. If successful in their goals, blockchains used at scale would make their underlying tokens extremely valuable, and so many investors see crypto assets as the best risk-reward asset class. That LUNA was championing unsustainable economics only gave investors additional false confidence that LUNA was farther along that path towards sustainability and profitability than they were.

Marketing and Perception Management

Marketing campaigns, including those at professional sporting events, influenced the perception of TerraLuna as a stablecoin. For example, LUNA was repeatedly described in a way that led people to believe that its economics were sustainable, even when that was not accurate. They may have believed it was sustainable, but it was not. Any advertising that suggested LUNA and UST were sustainable was leading consumers to reach false conclusions.

Comparative Analysis

The most comparable product to TerraLuna is Maker DAO, which uses Ethereum to overcollateralize the issuance of DAI, a decentralized stablecoin. Ethereum has become legitimately solid collateral, which is the important difference. Even if DAI fails, ETH is not going to experience a bank run.

Market Context and Timing

The broader market conditions and trends in the DeFi space at the time supported the investment case for TerraLuna, particularly as there was all sorts of speculation going on at the time. Plenty of money was made and lost during this time. As the market heated up, you had a lot of new market entrants looking for easy money and the speculation heated up. There was lots of irresponsible investment activities going on at the time, it was part of a mania that resulted from the 0-1 stage of DeFi and NFTs.

The specific market indicators or signals that made TerraLuna appear to be a sound investment included the market price of LUNA, the amount of UST outstanding, and the number of UST integrations into other parts of DeFi. This included the potential inclusion of UST in Curve where it would have been considered the 4th “major” stablecoin. Taken together, all these data points helped lend legitimacy to TerraLuna.

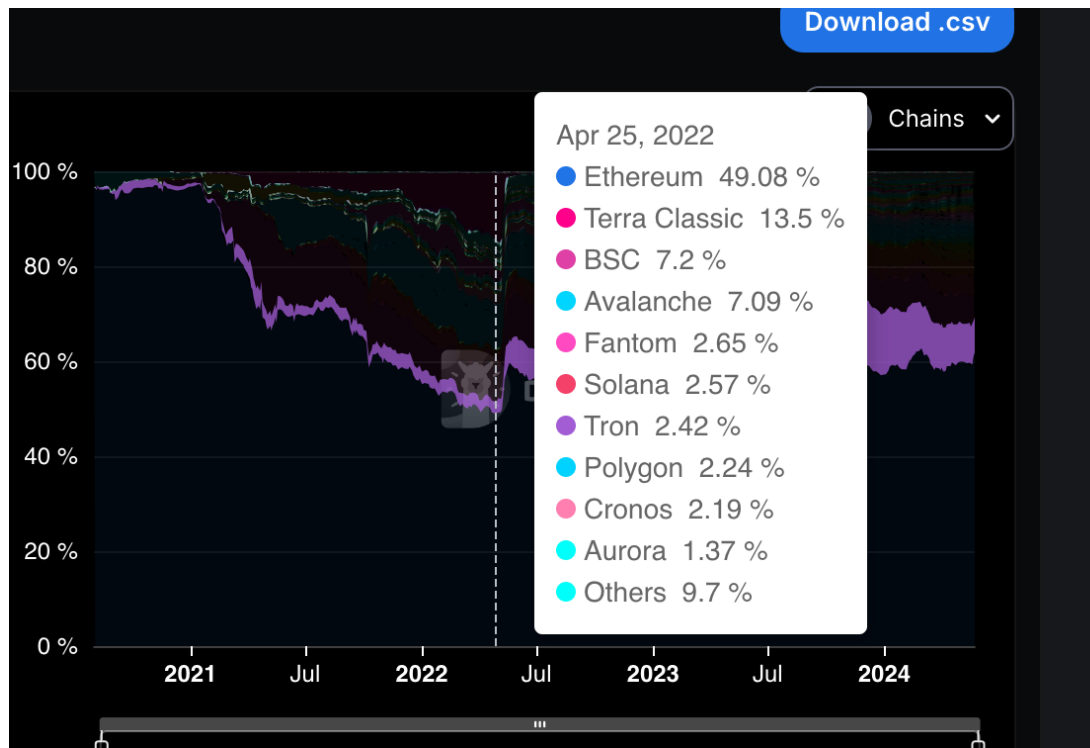
Expert Opinions and Endorsements

The market interpreted the support of Jump and other institutional type investors at the initial depeg as an endorsement of the stability and future prospects of the TerraLuna project. The backstopping by these institutional investors was seen as a significant boost of confidence. Even if individual investors were wary of the LUNA model, Jump and others backstopping the project gave false confidence to many investors that they would continue to backstop the project given the amount of skin they had in the game.

Performance Metrics

Prior to the crash, LUNA had performed extremely well on performance metrics. The metrics had all stemmed from adoption, which was all driven by the 20% yields coming from Anchor. That 20% yield, which turned out to be worthless, was propelling the adoption which made LUNA a success when judging by all relevant metrics. UST adoption and LUNA had reached a scale that would have led any passive observer to believe they were going to be successful. LUNA had become a top 5 blockchain by TVL, a metric reserved for assets with multi-billion dollar valuations.

For example, the chart below shows that Terra had become the 2nd largest blockchain by TVL before its collapse. This is an excellent data point for the scale LUNA had reached before its collapse, and an indicator that it had become one of the biggest projects in crypto



Regulatory Environment

There was (and arguably still is) widespread speculation that the US would crack down on stablecoins, making any centralized stablecoin a target of the US regulatory regime. That created an opportunity for a decentralized stablecoin, which would be scalable crypto-dollar that the US regulatory regime would not be able to censor or regulate, an enormous investment opportunity. LUNA appeared poised to take this mantle.

Community and Ecosystem

Community has played a critical role in the success of every major crypto asset, for good and for bad. As with the “XRP Army”, these cult-like communities can help propel a crypto asset towards success, even when there is nothing fundamentally underlying that success. Dogecoin may be a more pertinent example, where there is nothing but a meme and a community making that meme valuable.

The community reinforcement of the value propositions is critical in maintaining the belief in the underlying collateral. If a prospective investor might have been skeptical of any of the soundness of the LUNA economics or any of the other aspects of the LUNA investment hypothesis, the community on social media would have swayed or influenced the investor based on their enthusiasm for the project, rather than the actual fundamentals.

DocuSigned by:

Jonathan Joseph

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Jonathan Joseph

May 29, 2024

Resume – Jonathan Joseph

Experience

SmartFunds, Co-Founder

August 2020 – Present

- Real World Asset (RWA) tokenization platform and full stack private markets

Smart Money Yield Farming Fund, Managing Partner

August 2020 – Present

- An actively managed hedge fund seeking alpha via yield farming

Smart Money Ventures, Founder

- January 2019 – Present
- A DeFi venture studio building smart contract based financial services

ChainBytes, Advisor

January 2018 – August 2018

- Blockchain software development and services and developer of ChainTeller, kiosk software for Bitcoin and cryptocurrency ATMs

Sportology, Principal

June 2010 – July 2017

- A boutique consultancy with a focus on fantasy sports, gaming and data-driven media

FantasyIQ, Founder

January 2015 – January 2017

- Fantasy sports API

Fantasy Brain, Founder

January 2012 – November 2013

- Fantasy sports startup

Various Startups, Founder/Advisor

November 2010 – February 2012

- Worked on a number of startup projects: mobile advertising, group commerce, regional startup incubator and seed fund

Ultimate Football Network, Founder/CEO/Head Coach

September 2007 – October 2009

- Launched the first customizable content aggregator specific to Fantasy sports

In-Q-Tel, Principal

May 1999 – September 2006

- Led investments for the strategic venture capital fund affiliated with the CIA and other intelligence agencies
- Focused on early/mid stage technology investments in promising startups with strategic relevance to the Intelligence Community
- Portfolio produced not only a top-quartile IRR but also had a significant strategic impact with numerous key partnerships between my portfolio companies and government customers

Education

Tulane University, Bachelor of Science in Management
1994-1998

Published Works

<https://medium.com/@jonathanjoseph>